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ARAB STATES - ISRAEL: Both fronts remained quiet yesterday, although there were several minor incidents on the Egyptian front.

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Israeli and Syrian ground forces continued to honor the cease-fire yesterday.

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President Sadat asserted in a press conference yesterday that he has been under pressure from his military chiefs to renew hostilities if Israel refuses to withdraw to the 22 October cease-fire lines. He said he would restrain the army until he sees the result of current contacts in Washington by his newly appointed foreign minister, Ismail Fahmi, and the impending visit to Cairo of Secretary Kissinger. If the diplomatic talks are successful, and the Israelis do pull back, Sadat said he is prepared immediately to begin arrangements for a peace conference. Sadat may run into some difficulty from Syria when the time comes to begin talks, however. Damascus radio broadcast a statement by the Syrian information minister yesterday rejecting direct negotiations with Israel and affirming Damascus' refusal to bargain over Syrian territory.

Sadat also acknowledged that his decision to accept the original cease-fire has brought him some criticism. He defended himself with the claim that

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the US airlift had virtually forced him to stop fighting. Sadat said that Egyptian forces had initially held their own and gotten Israel down to a three-day supply of ammunition before new US weapons began arriving on the battlefield. Sadat was not totally negative, however; he credited the US, despite its help to Israel, with a "constructive attitude" thus far in its efforts to find peace.

According to an Israeli announcement, the transfer of supplies to the Egyptian Third Army was resumed on the afternoon of 31 October, following an unexplained delay. Radio Jerusalem said that in the past three days some 50 truckloads of supplies have been sent to the Egyptian Army units on the east bank. Earlier this week the Israelis agreed to allow a convoy of 100 trucks driven by UN personnel to pass through the lines with non-military supplies.

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JAPAN-OIL: The Japanese Government is under increasing pressure to abandon its neutral stance on the Middle East in favor of open support for the Arabs.

Vice Foreign Minister Hogen, hoping that a political settlement can be arranged before Japan's oil supply situation becomes tight, has thus far held to the line that Tokyo should not go beyond supporting Security Council Resolution 242 in responding to Arab demands for political support. The government may face a major policy decision by late November, however, in view of the Arab's announced intention to make further cuts in the oil supply. Depending on their severity, such cuts could have a profound effect on the Japanese public and possibly endanger the Tanaka government.

Japan stands to lose at least 500,000 barrels per day of oil imports, or about 9 percent of consumption, as a result of the initial cutback in production by the Arab producers. The major international oil firms that supply the bulk of Japan's oil have already notified the Japanese of impending cutbacks in deliveries. Gulf Oil, which supplies about 10 percent of Japan's imports, will cut shipments by 35 percent retroactive to 1 October. Japanese refineries thus far are operating normally and petroleum stocks probably are equivalent to about six weeks of normal consumption. Nonetheless, the government is drawing up plans to restrict consumption, including rationing if necessary.

Japanese diplomats have already offered to underwrite previously rejected aid projects to Arab countries, and a new soft line on Egyptian debt rescheduling is being considered. A Japanese Foreign Ministry official has told the US Embassy, however, that working-level officials do not believe such representations will be sufficient to restore oil deliveries to Japan to previous levels. Consideration is

now being given to sending International Trade Minister Nakasone, or even Prime Minister Tanaka, to visit Arab capitals, if the Middle East situation has not improved by December. The working-level officials envisage that such a trip might be accompanied by a drastic change in Japanese Middle East policy, possibly including a break in diplomatic relations with Israel. Thus far, senior Foreign Ministry officials have talked to the US Embassy only about Arab demands that Japan support them on the territorial issue.

[REDACTED]

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JAPAN: Tokyo's foreign exchange reserves fell by nearly \$750 million in October, the seventh consecutive monthly decline. Since February, official reserves have declined by \$5 billion from their \$19-billion peak because the Bank of Japan had to meet part of the heavy dollar demand during that period by intervening almost daily in the foreign exchange market. During October about \$1 billion was sold by the central bank.

Underlying the decrease in reserves has been the sharp decline in the trade surplus this year combined with record long-term capital outflows. Despite intervention by the central bank, the yen has depreciated by about 1 percent against the dollar in recent months. Some concern over the continuing decline in reserves is evident in the government's renewed consideration of easing some controls on capital inflows.

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CHILE: The government continues to use pre-emptive force to forestall the violent opposition it anticipates from the left. It apparently is less concerned about the economic recovery program's impact on the working class--a potentially more serious threat.

Opposition activity appears to be picking up somewhat in the countryside [REDACTED]

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[REDACTED] The national police reportedly have reassumed primary responsibility for maintaining public order, freeing the armed forces to concentrate on training in counter-insurgency tactics.

Some progress toward the formation of a new anti-government organization has been reported, but the left is not yet ready to begin a coordinated guerrilla-terrorist campaign. The apparent existence of uncoordinated fronts and commands suggests that much organizational work remains.

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The most radical leftist groups probably remain anxious to take up arms, but not all components of the former Popular Unity coalition are convinced that violence is the best tool with which to confront the government. Some groups appear to believe that fomenting strikes among workers disgruntled by the growing gap between wages and prices would be more productive.

The left's present ability to mobilize the workers is as questionable as its readiness for guerrilla warfare, but the regime publicly admits that there will be no early end to the economic squeeze. Moreover, there are indications of rising unemployment. Should workers come to believe that they are making all the sacrifices, resentment could lead to strikes even though leftist organizers have been removed from their factory jobs. Widespread strikes pose a potentially greater threat to the government than bands of rural guerrillas or urban terrorists.

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BRAZIL-CHILE: According to a local Brazilian observer, the Chilean economic mission to Brazil, headed by Foreign Ministry economic adviser Orlando Saenz, departed highly disappointed over the results of the visit.

A US Embassy source claims that Saenz asked for Brazil's assistance in guaranteeing new international lines of credit for Chile. Brazil reportedly refused to enter into such an arrangement. One senior official of the Brazilian Foreign Ministry told the US ambassador that his country already has given Chile at least \$70 million in credits on terms highly favorable to Chile. The official remarked that this constitutes deep economic involvement in Chile, "perhaps too deep."

Despite past expressions of willingness to aid the Chileans, Brazilian leaders showed considerable caution during this visit. The only real progress that the Saenz mission made in Brazil reportedly was a revival of a Brazilian-Chilean mixed commission and an outline of plans for the development of complementary industries.

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ARGENTINA: The vigor with which President Peron's supporters are carrying out their orders to "purge Marxists" and reorganize the party has intensified the long-simmering feud between left and right wing factions.

One provincial governor, a leftist sympathizer, has been ousted and Peron's Justicialist Party council has proposed that former president Hector Campora and Governor Obregon of Cordoba Province--both acclaimed as leading lights by Peronist radicals--be expelled from the party for "insults" to Peron. Peron, however, has rejected the council's recommendation and said it was necessary to move more slowly in the Campora-Obregon case.)

Although Peron's manipulations obviously are designed to ensure absolute loyalty from the Peronist hierarchy, the campaign against real or imagined political challengers may run into formidable opposition in Cordoba where dissident elements have frequently defied Buenos Aires. Dissatisfaction with Peron is running high among leftist student and union groups, and the stage is set for more violence. [REDACTED]

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IRAN-USSR: Iran has agreed to increase its deliveries of natural gas to the Soviet Union. Under the terms of a protocol signed on 24 October, Iran apparently will provide the Soviet Union with gas for local use, thereby enabling Moscow to divert to West Germany gas from Soviet fields in the western USSR. Bonn has held discussions with Iran and the USSR on the proposed arrangement, but no final agreement has been reached. The proposal would enable the Soviets to solve an internal distribution problem, give Iran an export market, and improve the USSR's capability to export gas to Western Europe. To obtain Soviet natural gas, West Germany has provided pipe and equipment for construction of transmission facilities in the USSR.

Tehran already exports natural gas to the USSR through a pipeline built with Soviet assistance. Although an increase in the amount of gas exported to the USSR probably would require construction of another pipeline, the protocol did not mention Soviet financing for such a project. In any case, Iran probably will build a pipeline from its northeastern gas fields to the Soviet border.

The recent protocol also calls for Soviet participation in a wide range of projects, some of which already are included under existing Soviet credits. No new assistance was announced, but some aid may be forthcoming after feasibility studies have been completed. Moscow will build two 300,000-kilowatt thermal power plants, two cement plants, and a petrochemical plant; expand a machine tool plant to produce parts for the Soviet-built Isfahan steel mill; and provide vocational training for Iranians. [REDACTED]

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AFGHANISTAN: President Daoud claims to have established firm control over the handling of political issues, but major domestic and foreign problems remain.

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Daoud has denied repeated accusations that the pro-Communist Parcham Party constitutes a threat to his government. An embassy assessment, however, indicates that Parchamists have infiltrated the government and now hold many positions at the working level, some with decision-making authority. Daoud has consistently claimed that only minor posts have been given to the Parchamists, whom he also tends to describe as primarily Afghan nationalists and only secondarily Communists.

Despite Daoud's optimism, he faces many difficult problems. Important political and economic decisions are being deferred, at least in part, because of the upheavals in the bureaucracy over the past few months. Many senior military officers, some of whom have been retired since the coup, remain bitter at the treatment they received from the new government. Reports continue to circulate in Kabul that Daoud, disgusted with the inefficiency and corruption of members of his cabinet, will soon announce sweeping personnel changes.

Meanwhile, trials of two groups--high officials of the government overthrown in July and individuals

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accused in September of plotting against the present regime--are being held in camera. The former reportedly will receive light sentences; some of the latter are likely to be given stiff penalties, including death.

Daoud claims to have transcripts and other evidence implicating Pakistan in the alleged plot to over throw his government. This issue, plus continuing controversy over Islamabad's actions in the two Pakistani frontier provinces, keep bilateral relations tense. An isolated clash on the Iranian border last week also has increased tension with Tehran.

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SWEDEN: Prime Minister Palme's cabinet reshuffle yesterday, following the elections last month, was intended primarily to streamline government domestic policy. Nevertheless, chances for improved relations with Washington were enhanced by the replacement of Foreign Minister Krister Wickman by Sven Andersson. Andersson, who had been defense minister since 1957, has been much less critical of US policy than Wickman. Two old ministries--interior and civil--were replaced by three new ones--labor, housing, and municipal. The restructuring resulted in new assignments within the cabinet for five ministers. Three new faces were added, reflecting the loss of Wickman, who resigned, and of disarmament specialist Alva Myrdal, who retired, plus the creation of one new ministry. Further changes may occur.

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Syria: Work has begun on repairing the power plant at the \$120-million Homs refinery that was damaged by Israeli air strikes. Contrary to several earlier reports, the refinery was not destroyed, although production halted because of damage to nearby power and export facilities. The 3-million-ton capacity refinery accounts for Syria's total output of petroleum products.

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**This item was prepared by CIA without consultation with the Departments of State and Defense.*

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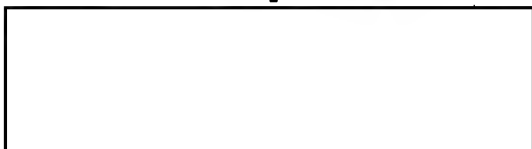
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